



**COUNTY OF LOS ANGELES**  
**TREASURER AND TAX COLLECTOR**  
KENNETH HAHN HALL OF ADMINISTRATION  
500 WEST TEMPLE STREET, ROOM 437  
LOS ANGELES, CA 90012



**MARK J. SALADINO**  
TREASURER AND TAX COLLECTOR

November 05, 2013

The Honorable Board of Supervisors  
County of Los Angeles  
383 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, California 90012

**ADOPTED**

BOARD OF SUPERVISORS  
COUNTY OF LOS ANGELES

55 November 5, 2013

*Sachi A. Hamai*  
SACHI A. HAMAI  
EXECUTIVE OFFICER

Dear Supervisors:

**LOS ANGELES COUNTY ENERGY PROGRAM**  
**ISSUANCE OF CONTRACTUAL ASSESSMENT LIMITED OBLIGATION IMPROVEMENT BONDS,**  
**SERIES 2013 C-2**  
**(THIRD DISTRICT) (3 VOTES)**

**SUBJECT**

The Treasurer and Tax Collector is requesting authorization to increase the maximum aggregate principal amount of Contractual Assessment Limited Obligation Bonds, Series 2013 C-2 (the "Bonds") on behalf of a new property owner, Hillcrest Real Estate LLC. The Bonds are being issued under the Los Angeles County Energy Program (LACEP) and were previously approved by your Board on August 20, 2013. LACEP was established at the request of the Internal Services Department and Treasurer and Tax Collector to provide a financing mechanism for qualified property owners within the County of Los Angeles (the "County") to install energy and water efficiency improvements to their respective properties. Participating property owners will repay the cost of the improvements through an annual assessment levied against their property which is payable in semi-annual installments through the property tax system. Hillcrest Real Estate LLC will utilize the proceeds from the sale of the Bonds to fund the installation of such improvements to a commercial property located in the City of Los Angeles. The Bonds issued on behalf of the property owner will be the second financing completed by the County under LACEP.

**IT IS RECOMMENDED THAT THE BOARD:**

Adopt the Resolution, amending a prior resolution adopted by your Board on August 20, 2013, authorizing an increase in the maximum aggregate principal amount of Contractual Assessment Limited Obligation Improvement Bonds, Series 2013 C-2 from \$6,000,000 to \$7,000,000 on behalf of a new property owner, Hillcrest Real Estate LLC.

## **PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION**

Hillcrest Development LLC (DBA: Hilton Los Angeles/Universal City) previously applied for PACE financing to install energy improvements to its Hilton Universal Hotel located at 555 Universal Hollywood Drive, Universal City, CA 91608 (APN: 2424-044-022). As a result of a refinancing transaction related to the Hilton Universal Hotel, Hillcrest Development LLC will transfer ownership of the property to Hillcrest Real Estate LLC prior to the closing of the Bonds. In addition to the change in ownership, Hillcrest Real Estate LLC is requesting an increase in the maximum par amount of the Bonds from \$6,000,000 to \$7,000,000. This increase is due to an expanded project scope and additional energy improvements planned for the Hilton Universal Hotel. Outside of these changes, the facts and provisions supporting this recommendation are no different than those presented to your Board on August 20, 2013.

## **Implementation of Strategic Plan Goals**

This action supports the County's Strategic Plan Goal #1: Operational Effectiveness and Strategic Plan Goal #3: Integrated Services Delivery, by providing a financing program to property owners in the County, which will serve to promote energy and water conservation and the reduction of greenhouse gas emissions.

## **FISCAL IMPACT/FINANCING**

There is no fiscal impact to the County budget. Repayment of the Bonds is secured by the PACE assessment contract and is the sole responsibility of the Property Owner.

## **FACTS AND PROVISIONS/LEGAL REQUIREMENTS**

On July 21, 2008, the Governor signed California Assembly Bill 811 (AB 811) which, as amended, authorizes local governments to establish Property Assessed Clean Energy (PACE) financing programs, which enables property owners to voluntarily finance energy and water efficiency improvements, and distributed generation renewable energy projects (collectively referred to as "Energy Improvements") that are permanently fixed to residential, commercial, industrial, or other real property. LACEP will provide a financing mechanism for Energy Improvements through an assessment contract between the County and the property owner, pursuant to which the County will disburse a specified amount of funding in the form of a loan to the property owner. The property owner will repay this loan through direct assessment levies to be included on the annual property tax bill. The County intends to provide the financing mechanism for Energy Improvements under LACEP by issuing PACE bonds to private investors, which are payable from contractual assessment revenues and secured by assessment contracts with qualified commercial property owners. If the owner sells the subject property prior to full repayment of the loan, the obligation remains a lien on the property that is transferred to the new property owner. Participation in this program is completely voluntary and property taxes for non-participating property owners will not be affected by the County's implementation of LACEP. In addition, the Energy Improvements will not generally be subject to reappraisal by the County Assessor unless they are included as part of a major remodeling or renovation that results in a structural change substantially equivalent to new construction.

The implementation of Energy Improvements to existing commercial properties in the County will help the State and County reduce greenhouse gas emissions, and enable property owners to save

money through reductions in water and energy usage. PACE financings under AB 811 mitigate two key barriers that prevent property owners from implementing a greater number of Energy Improvements: 1) eliminates the need for property owners to finance up-front costs for Energy Improvements out of pocket, and 2) establishes a loan obligation that is attached to the property and not to the individual borrower. The issuance of the Bonds on behalf of Hillcrest Real Estate LLC will be the second PACE financing completed under LACEP, and would represent the largest commercial PACE financing completed in the nation to date.

#### Legal Authority

LACEP was established in accordance with the provisions of Chapter 29 of Part 3 of Division 7 of the Streets and Highways Code of the State of California. Pursuant to the Improvement Bond Act of 1915 (the "1915 Bond Act") and Division 10 of the California Streets and Highways Code, local governments are authorized to issue bonds secured by the voluntary contractual assessments of property owners within their jurisdictions. In accordance with Section 5989.30 of the Act, as amended by AB 811, the levy and collection of assessments pursuant to Chapter 29 are valid under existing law and provide for the priority status of an AB 811 assessment lien. To facilitate the issuance of PACE bonds under LACEP, the County has relied upon the legal opinion of its bond counsel to confirm the validity of the PACE assessment and the priority status of contractual assessment liens.

On April 6, 2010, your Board adopted a Resolution of Intention to initiate the formation of a voluntary contractual assessment program in accordance with the provisions of AB 811. On May 25, 2010, a public hearing was held in which your Board approved the establishment and implementation of LACEP and authorized the issuance of PACE bonds to provide financing for Energy Improvements to participating property owners. Proceeds from the sale of the PACE bonds will be used for the purpose of funding loans to property owners that have been approved for participation in LACEP.

#### PACE Bond Financing

LACEP was established with the primary and initial objective to establish a PACE financing program for both residential and commercial property owners. As of July 6, 2010, however, the County's residential PACE program was put on hold after the Federal Housing Finance Agency (FHFA) issued a statement that certain PACE programs present significant safety and soundness concerns to the mortgage portfolios held by Fannie Mae, Freddie Mac and the Federal Home Loan Banks (collectively the "Federal Mortgage Agencies") due to the priority lien status of PACE assessment contracts. The FHFA statement directed the Federal Mortgage Agencies to take a number of steps to protect their mortgage portfolios that have had a significant adverse impact on residential PACE programs throughout the nation. Since the Federal Mortgage Agencies dominate the secondary mortgage market, the FHFA action has largely prevented liens related to PACE assessment contracts from remaining with residential properties upon the sale or transfer to new owners, thus eliminating one of the primary benefits of residential PACE.

In response to the FHFA action, the County refocused LACEP toward establishing a commercial PACE program. In a commercial PACE financing transaction issued under LACEP, the County will utilize a private placement model in which the property owner will secure financing from the capital markets in accordance with the basic parameters of the 1915 Bond Act. The County will issue a single series of bonds to the PACE investor, which will be secured by the annual revenues generated from the assessment contract between the County and the property owner. The proceeds from the sale of the Bonds to the PACE investor will be used to finance the Energy Improvements to the commercial property.

In the private placement model, the County is relying on the expertise of the financial markets to evaluate the creditworthiness of commercial property owners for participation in LACEP. However, the commercial property owner will be required to obtain lender consent if there is an existing mortgage lien on the property, and will be subject to more restrictive foreclosure covenants. If the commercial property owner becomes delinquent with their annual property tax payments, upon the request of the PACE investor, the County will be required to immediately commence judicial foreclosure proceedings. The final maturity of PACE bonds issued under LACEP will be limited to the estimated useful life of the Energy Improvements, which on average, is expected to be 15 - 20 years. In no event will the final maturity of PACE bonds exceed twenty years. Because the Energy Improvements would be installed on private property, the County does not have the legal authority to issue PACE bonds on a tax-exempt basis. The legal requirement to issue taxable bonds will result in higher interest costs to participating property owners in comparison to a similar tax-exempt financing. The County's credit will not be used to support or guarantee the repayment of any PACE bonds issued in connection with LACEP.

#### Hilton Universal Hotel

The installation of the Energy Improvements by Hillcrest Real Estate LLC is expected to reduce the Hilton Hotel's energy usage by approximately 50%, resulting in estimated annual savings of \$766,000. The project will include a wide range of energy efficiency upgrades, including a lighting retrofit, elevator modernization, window film, central plant improvements, energy management system, electric vehicle charging stations, solar panels, and low flow showers and tubs. Upon completion of the project, the Hilton Universal Hotel expects to receive approximately \$750,000 in incentives from utility companies and the State of California. The Bonds issued to finance the Energy Improvements will have a maximum par amount of not to exceed \$7,000,000, with an interest rate of 7% and will be repaid over a 20-year term.

The PACE investor for this transaction is Structured Finance Associates LLC (SFA), a California-based company focused on providing PACE financing for energy efficiency and renewable energy generation products on commercial and industrial properties. SFA has been actively involved in PACE financing programs in various counties in California, as well as similar programs in Connecticut and New Jersey. Hawkins Delafield & Wood, LLP will represent the County as bond counsel for this transaction and future PACE financings. The Treasurer and Tax Collector has appointed Wilmington Trust, N.A. as the trustee and paying agent for the Bonds and for future PACE financings.

#### **IMPACT ON CURRENT SERVICES (OR PROJECTS)**

There will be no impact to current services or projects.

#### **CONCLUSION**

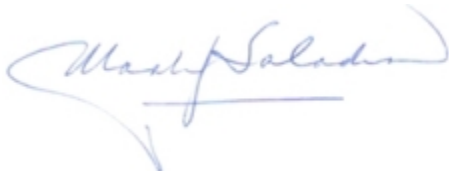
Upon approval of this Resolution, it is requested that the Executive Officer-Clerk of the Board of Supervisors return two originally executed copies of the adopted Resolution to the Treasurer and Tax Collector (Office of Public Finance).

The Honorable Board of Supervisors

11/5/2013

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Respectfully submitted,

A handwritten signature in blue ink, reading "Mark J. Saladino". The signature is written in a cursive style with a horizontal line underneath the name.

MARK J. SALADINO

Treasurer and Tax Collector

MJS:GB:DB:JP

Pb/brdltr/amended

paceres

Enclosures

c: Chief Executive Officer  
Internal Services Department  
County Counsel  
Auditor-Controller

**RESOLUTION OF THE BOARD OF SUPERVISORS OF THE COUNTY OF LOS ANGELES AMENDING THE RESOLUTION ADOPTED ON AUGUST 20, 2013 BY THE BOARD OF SUPERVISORS OF THE COUNTY OF LOS ANGELES APPROVING THE ISSUANCE OF LOS ANGELES COUNTY ENERGY PROGRAM CONTRACTUAL ASSESSMENT LIMITED OBLIGATION IMPROVEMENT BONDS, SERIES 2013 C-2, TO AUTHORIZE THE MAXIMUM AGGREGATE PRINCIPAL AMOUNT OF BONDS TO BE ISSUED UNDER THE INDENTURE TO BE \$7,000,000, TO APPROVE FINANCING FOR A SUBSEQUENT PROPERTY OWNER AND RELATED MATTERS**

**WHEREAS**, Chapter 29 of Part 3 of Division 7 of the Streets and Highways Code of the State of California (the "Contractual Assessment Law") authorizes counties to assist free and willing property owners in financing the installation of distributed generation renewable energy sources and energy and water efficiency improvements (the "Improvements") that are permanently fixed to residential, commercial, industrial or other real property through a contractual assessment program; and

**WHEREAS**, the Board of Supervisors (the "Board of Supervisors") of the County of Los Angeles (the "County") established the Los Angeles County Energy Program (the "LACEP") to finance the acquisition, construction and installation of the Improvements on properties in the County through the use of contractual assessments pursuant to the Contractual Assessment Law; and

**WHEREAS**, the City of Los Angeles, an incorporated city located within the boundaries of the County (the "City"), has resolved to participate with the County in LACEP; and

**WHEREAS**, Hillcrest Development LLC (the "Hillcrest") has applied for financing pursuant to LACEP to fund Improvements to certain real property owned by Owner and located in the City (the "Property"); and

**WHEREAS**, Hillcrest will transfer ownership of the Property to Hillcrest Real Estate LLC (the "Owner") before the closing of the herein referenced financing; and

**WHEREAS**, the Owner desires to obtain financing pursuant to LACEP to fund the Improvements on the Property; and

**WHEREAS**, pursuant to LACEP, the County will enter into a contractual assessment agreement (the "Assessment Contract") with Owner pursuant to which the County will assist in financing the acquisition, construction and installation of Improvements on the Property and levy contractual assessments (the "Assessment") on the Property in the amounts set forth in the Assessment Contract; and

**WHEREAS**, the County desires to assist in the financing of the Improvements through the issuance of Los Angeles County Energy Program Contractual Assessment Limited Obligation Improvement Bonds, Series 2013 C-2 (the "Bonds"); and



**WHEREAS**, on May 25, 2010 the Board of Supervisors adopted a Resolution authorizing the issuance of Los Angeles County Energy Program Contractual Assessment Limited Obligation Improvement Bonds (the "Contractual Assessment Bonds") under and pursuant to the Contractual Assessment Law, The Improvement Bond Act of 1915, being Division 10 of the Streets and Highways Code of the State (the "1915 Act") in the aggregate principal amount of not to exceed \$100 million for the purpose of funding qualified improvements under LACEP; and

**WHEREAS**, the issuance of the Bonds will not cause the authorized amount of Contractual Assessment Bonds to be exceeded; and

**WHEREAS**, the Bonds will be issued pursuant to the Indenture (the "Indenture"), by and between the County and the trustee named therein; and

**WHEREAS**, the County desires to provide for the negotiated sale of the Bonds to an accredited investor or qualified institutional buyer named in the Bond Purchase Agreement (the "Bond Purchase Agreement" and, together with the Assessment Contract and the Indenture, the "Financing Documents"), such negotiated sale being in the best interests of the County; and

**WHEREAS**, the Board of Supervisors approved on August 20, 2013 a resolution entitled "Resolution of the Board of Supervisors of the County of Los Angeles Authorizing the Execution and Delivery by the County of an Indenture, an Assessment Contract and a Bond Purchase Agreement in Connection with the Issuance of Los Angeles County Energy Program Contractual Assessment Limited Obligation Improvement Bonds, Series 2013 C-2, Approving the Issuance of such Bonds in an Aggregate Principal Amount of Not To Exceed \$6,000,000 and Authorizing the Execution of Necessary Documents and Certificates and Related Actions" (the "Original Resolution");

**WHEREAS**, the County desires to amend the Original Resolution to increase the maximum aggregate principal amount of Bonds to be issued thereunder from \$6,000,000 to \$7,000,000; and

**WHEREAS**, the County desires to amend the Original Resolution to provide for LACEP financing to the Owner instead of Hillcrest; and

**WHEREAS**, all acts, conditions and things required by the Constitution and laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of the actions authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the County is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such actions for the purpose, in the manner and upon the terms herein provided;

**NOW, THEREFORE, THE BOARD OF SUPERVISORS OF THE COUNTY OF LOS ANGELES, DOES HEREBY RESOLVE, DETERMINE AND ORDER AS FOLLOWS:**

**Section 1.** All of the recitals herein contained are true and correct and the Board of Supervisors so finds.

**Section 2.** The County hereby amends the Original Resolution to increase the maximum aggregate principal amount of Bonds to be issued thereunder to \$7,000,000 and to provide for LACEP financing to the Owner instead of Hillcrest.

**Section 3.** The provisions of the Original Resolution shall continue in full force and effect in accordance with the terms and provisions thereof, as amended hereby.

**Section 4.** The Authorized Officers are hereby authorized and directed, jointly and severally, to do any and all things which they may deem necessary or advisable in order to consummate the transactions herein authorized and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution.

**Section 5.** All actions heretofore taken by the officers, employees and agents of the County with respect to the transactions set forth above are hereby approved, confirmed and ratified.

**Section 6.** This Resolution shall take effect from and after its date of adoption by the Board of Supervisors.

The foregoing Resolution was on the 5<sup>th</sup> day of November, 2013, adopted by the Board of Supervisors of the County of Los Angeles and *ex officio* the governing body of all other special assessment and taxing districts, agencies and authorities for which the Board so acts.

SACHI A. HAMAI, Executive Officer-  
Clerk of the Board of Supervisors of the  
County of Los Angeles

By: Sachelle Amitherman

Deputy

APPROVED AS TO FORM:

JOHN F. KRATTLI  
County Counsel

By: George S. DePout

Principal Deputy County Counsel

